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**Conceptualizing the Political Role of Small- and Medium-sized Enterprises  
as Private Actors in Global Governance**

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# **Conceptualizing the Political Role of Small- and Medium-sized Enterprises as Private Actors in Global Governance**

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## **Abstract:**

In this paper, I theoretically discuss the emerging role of small- and medium-sized enterprises (SMEs) as private actors in global governance – referring to the collective rule-making and rule-implementation among public and private actors on a global scale. Drawing on the theoretical concepts of ‘political’ corporate social responsibility (CSR) and social connection as well as on empirical evidence, I suggest that SMEs are, on the one hand, as much as multinational corporations (MNEs) exposed to governance gaps of social and environmental regulation when operating in the global marketplace; on the other hand they do not follow the same approach to (political) CSR as MNEs, due to different organizational characteristics, limited financial and human resources and motivational factors. Notwithstanding, numerous examples exist where SMEs are already accepting an active role in global governance, e.g., by following the 10 principles of the UN Global Compact and engaging in (multi)stakeholder dialogue. I theoretically develop a conceptual framework for the systematic assessment of how SMEs approach global governance and embed political responsibility in their organizational settings.

**Keywords:** Corporate Social Responsibility (CSR), Global Governance, Political CSR, Small- and Medium-Sized Enterprises (SME), Social Connection, United Nations Global Compact (UNGC)

## **Conceptualizing the Political Role of Small- and Medium-sized Enterprises as Private Actors in Global Governance**

Environmental and social problems, such as climate change and access to water, human rights abuses and exploitation of workers, have emerged in globalized markets, where powerful and large multinational enterprises (MNEs) increasingly operate outside their well-regulated western home countries. In the context of MNEs operating in markets where regulatory and enforcement mechanisms are partly or entirely missing, it has been discussed how efforts for closing those governance gaps of low or non-existing social and environmental standards could be shared between public and private actors (Matten and Crane, 2005; Scherer and Palazzo, 2007). MNEs with their global supply chains are often at the forefront of critique and public attention (see e.g., Levy, 2008; Banerjee, 2008). Though, numerous cases exist where they proactively engage in the promotion of public goods such as human rights (Cragg, 2005; Kinley and Tadaki, 2004) or the implementation of social and environmental standards and self-regulation (Christmann, 2004; Scherer and Smid, 2000). By doing so, they are already actively engaging in a form of ‘political’ corporate social responsibility (CSR) that was once regarded a genuine government responsibility (see Margolis and Walsh, 2003). These companies are accepting a political role, next to their apparent economic role, in global governance - referring to the collective rule-making and rule-implementation on a global scale that combines the efforts of public actors and private actors (Scherer et al., 2006; Walsh et al., 2003). Here, I refer to the notion of CSR<sup>1</sup> as an umbrella term for the debate about the relationship between business and society. The terms ‘political CSR’ and global governance are used to make an explicit reference to the additional global dimension of responsibility which occurs along a company’s globally embedded supply chain.

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<sup>1</sup> The term CSR does not imply that only *incorporated* firms have responsibilities to society. In this article it is refrained from promoting a new, probably more SME-specific term, as this would only add complexity to the myriad of terms already in use. Moreover, there are examples of articles that have applied CSR to SMEs without any loss of clarity (e.g., Jenkins, 2004, 2006; see Preuss & Perschke, 2010).

In this context, also small and medium-sized enterprises (SMEs) - companies with less than 250 employees (EC, 2003) - are in many cases as much as MNEs either embedded in or possessing own supply chains with global reach (Schwab, 2008). These globally linked SMEs are facing the same new realities as MNEs when confronted with weak or absent regulation, corruption, and irresponsible exploitation of environmental resources or human rights violations. SMEs with global supply chains are thus also ‘multinational’, however, the common phrase MNE is usually implicitly interpreted as a large ‘corporation’, rather than a business firm independent of size. In this study, global embeddedness applies to SMEs and MNEs; therefore, they are differentiated along dimensions of firm size, ownership structure, organizational characteristics and resources.

Despite their increasing global reach, why and to what extent SMEs have already or could in the future adequately engage in political CSR and global governance, has however only been fragmentary analysed in the literature (Jorgensen and Knudsen, 2006; von Weltzien Hoivik and Melè, 2009). Most studies do not differentiate between MNEs and SMEs. MNEs are usually considered when looking at ‘best practice’ examples and it has been suggested that due to economies of scale, large firms tend to provide more CSR attributes than small firms (McWilliams and Siegel, 2001). However, I argue that SMEs approach (political) CSR differently than MNEs with a not necessarily inferior impact on society. There is no evidence that they are less able to deal with challenges of global governance or less effective in implementing practices of political responsibility. Nevertheless, the differences linked to the respective size of the company as well as institutional characteristics of SMEs must be considered when conceptualizing their role in global governance (Spence, 2007).

Previous theoretical conceptualizations on the role of private actors in global governance have discussed the emerging political role being attributed to MNEs in the transition from a stable industrial society to a ‘postnational constellation’ as described by Habermas (2001) (see also Scherer and Palazzo, 2011). The term describes the global erosion

of the clear division of societal responsibilities among governments, business, and civil society that had developed in the 20<sup>th</sup> century nation state society.

Enterprises increasingly operate on a global level; though, the corresponding governance frameworks, which should regulate their behaviour, are mainly national. Traditional compliance-based concepts of CSR that are still widely applied assume a functioning nation state and democratic institutions that are able to regulate the behaviour of firms (e.g., Carroll, 1979; Jones, 1995; McWilliams and Siegel, 2001). The division of labour between the state and the corporation is assumed to hold. This assumption, however, is questioned when making the case for global governance, as corporations are - deliberately or not - able to exploit regulatory gaps and take advantage of low or non-existing social and environmental standards (Scherer and Smid, 2000). In the context of globalized markets and societies, inclusive regulation is weakened: Compliance with existing laws bound to a specific nation-state are insufficient to provide universally agreed social and environmental standards, such as the Universal Declaration of Human Rights (Kell, 2005).

Consequently, those corporations whose business conduct (i.e., their sourcing, production or their sales) goes beyond the reach of national regulation in general, and those who do business in zones of conflict or of weak governance in particular, are confronted with new demands of civil society and urged to accept certain additional 'political' responsibilities. A perspective on CSR that is explicitly considering the changing role of MNEs in the process of globalization has been developed by Matten and Crane (2005). They observe that in globalized markets and societies, global governance is not anymore a mandate administrated by nation states alone. Rather, MNEs, actors from civil society, governments and supranational organizations participate collectively in the formulation and implementation of rules in different areas of public policy (Scherer et al., 2006). Corporations are increasingly attributed tasks of administering citizenship rights: They are providing social rights, enabling civil rights and channeling political rights (Matten and Crane, 2005, p. 172).

Scherer and Palazzo (2007, p. 1115) have further elaborated this political conception of CSR, which implies a shift away from implicit compliance with assumed societal norms and expectations. It attributes an active involvement of “[...]corporate decision making processes to civil society discourses, and shifting corporate attention and money to societal challenges beyond immediate stakeholder pressure”. Thus, corporate actors are not only addressees of (self)regulation, but also authors of rules with public impact, as they are embedded in democratic processes of defining rules and tackling global political challenges. Such a corporate role is based on the normative ‘social connection model’ of political responsibility, in which agents who contribute by their actions to the structural processes along the whole supply chain that produce injustice have responsibilities to work to remedy these injustices (Young, 2004; 2006).

Within this debate on political CSR, the role of those SMEs that are embedded in global value chains and thus are exposed to governance gaps, remains unclear (Spence, 2007). If SMEs implicitly or explicitly commit to engage in political CSR and implement respective practices in their operations, this would likely be for different reasons than MNEs. The latter normally dispose over significantly larger financial and human resources, possess much higher power to exert against business partners, and are also to a much higher degree exposed to the attention of media and critics from civil society (Jorgensen and Knudsen, 2006; Spence, 2007).

Conversely, about half of the more than 6.000 participants of the world’s largest multistakeholder initiative (MSI), the United Nations Global Compact (UNGC) are indeed SMEs. The UNGC seeks to engage companies in political CSR and global governance along 10 principles of human rights, labour standards, environmental and anti-corruption, (UNGC, 2010; appendix 1). It appears that these SMEs are in principle willing to accept a respective kind of responsibility. However, guidance and assessment tools illustrating how SMEs could effectively approach political CSR remain scarce (see e.g., UNGC, 2007). Participants of a

recent UNGC stakeholder workshop urged the initiative to better engage in a differentiated approach to both groups of companies depending on their needs and available resources (COP Workshop, 2008).

To address the research gaps which have been outlined above, I develop a conceptual framework of political CSR and global governance for SMEs. This analytical tool is based on ideal levels of political CSR within SMEs and allows assessing how SMEs understand, approach and embed practices of political CSR in their organizational structures and procedures. Thereby, this paper contributes to the literature by discussing why and how SMEs engage in global governance and shows with ‘empirical’ ‘anecdotal evidence’ (Mintzberg, 1979) that a role for SMEs in global governance in principle exists, and suggests an approach to systematically operationalize and assess it. From a managerial perspective, this framework provides a descriptive basis which managers of SMEs and other stakeholders may use to evaluate where their organization stands in its political CSR engagement. From a research perspective, the framework offers a theoretical basis on which to build further conceptual and empirical efforts to assess how and why political CSR unfolds in SMEs.

The remainder of this paper is organized as follows: First, I review the literature on SMEs and CSR, illustrating their economic importance, organizational characteristics and the main concepts of the contemporary CSR debate around SMEs, in order to build the theoretical basis for the subsequent development of the conceptual framework. Secondly, I review existing engagement of SMEs in global governance. Thirdly, I develop a two-dimensional conceptual framework. The horizontal axis of the framework consists of categories grouped into five stages illustrating an increasing comprehensiveness of political responsibility and global governance engagement (see Maon et al. 2010). The corresponding vertical axis consists of three dimensions that illustrate the different aspects where political CSR is diffused into organizational processes (Young, 2004; 2006).



## **SMEs in the Debate on Corporate Responsibility**

The role of the SME sector in global governance has not yet been discussed comprehensively (Jorgensen and Knudsen, 2006; von Weltzien Hoivik and Melè, 2009); nor are there many empirical studies which adequately address the aggregated importance of SMEs in terms of their economic and social impact on society (European Commission, 2005; Small Business Administration, 2008; Spence et al., 2003). SMEs represent the most common form of private business in OECD countries (Jenkins, 2009). While SMEs may not have a significant impact individually, in the EU alone SMEs contribute with 67.1% (about 75 million employees) to the total workforce and 99% of all registered companies (some 23 million firms) are indeed SMEs with an average share in total GDP of about 45% between 1990 and 1999; in some industries, such as textiles or construction, SMEs even provide up to 80% of employment (European Commission, 2007; ILO, 2005; Russo and Tencati, 2009; Spence, 2007). SMEs should therefore neither individually nor collectively be treated as an insignificant component of the economy or society (Tilley, 2000).

Though, on average having a smaller share of cross-border activities (ratio of imports and exports to turnover) than MNEs, many SMEs from industrialized countries operate on the global marketplace by procuring raw materials, sourcing services and parts of their production to developing countries and compete for consumers on a global level, either as part of the supply-chain of a MNE or as buyers from upstream suppliers themselves (Ciliberti et al., 2008; Enderle, 2004; Jorgensen and Knudsen, 2006).

SMEs can therefore as much as MNEs potentially be exposed to governance gaps when operating in territories with weak regulation or low social and environmental standards, competing beyond their national border or producing externalities that are not covered under national legislation; an impact which has been highly marginalized in the extant CSR literature (Lepoutre and Heene, 2006; Roberts et al., 2006; Schoenberger-Orgad and McKie, 2005; Tilley, 2000; Worthington et al., 2006).

Along with growing internationalization, SMEs are increasingly expected to combine global business strategies with strategies to govern social and environmental standards across global supply chains (Jorgensen and Knudsen, 2006). However, mostly they do not possess the same resources as large firms for doing so, such as dedicated CSR managers and departments, or extensive monitoring and auditing schemes (McWilliams and Siegel, 2001).

In the literature on corporate responsibility and business ethics in general, the development of a SME perspective is an ongoing process that has only recently been started (amongst others Jenkins, 2004; 2006; 2009; Moore and Spence, 2006; Morsing and Perrini, 2009; Murillo and Lozano, 2006; Spence, 1999; Spence, 2007; Worthington et al., 2006). Few dedicated special issues of scholarly journals in the field of business ethics have yet been published (e.g., *Business Ethics: A European Review*: Issue 18, 2009 or *Journal of Business Ethics*: Issue 47, 2003 and *Journal of Business Ethics* 67(3), 2006). Meanwhile, the topics of ethics and sustainable development have also recently been analyzed from an entrepreneurship perspective (see e.g., Harris et al., 2009; Hall et al., 2010).

Studies that have approached the SME topic are in general consistent with their acknowledgement of the organizational differences of SMEs and respectively a need for a different and well adjusted approach within the CSR agenda, including to avoid considering MNEs as a benchmark for CSR practices (e.g., Enderle, 2004; Moore and Spence, 2006; Morillo and Lozano, 2006; Morsing and Perrini, 2009; Spence, 1999; Spence et al., 2003; Spence, 2007).

Constraints of SMEs are fewer human and financial resources, and a general lack of time and knowledge, which could be dedicated explicitly to the CSR agenda (Spence, 2007; Russo and Tencati, 2009). Firm size represents one criterion; others include legal form, profit-orientation, and institutional structures (Russo and Perrini, 2009; Spence, 1999; Spence and Rutherford, 2003). Enderle (2004) suggests that standards to implement CSR may prove inappropriate for SMEs because they are likely designed thinking of large businesses and

scale, requiring a proportionately higher investment of time, finances, and energy from small firms than from large ones (Spence et al., 2003).

However, evidence related to the influence of those organizational constraints on responsible business practice and the resulting design of managerial tools remains fragmented and even contradictory (Lepoutre and Heene, 2006; Murillo and Lozano, 2006, Roberts et al., 2006; Russo and Perrini, 2009). Whereas a number of reports state that small firms are *better* positioned and equipped for socially responsible behaviour than large firms, other researchers claim that small businesses experience *more* difficulties than larger firms to implement their social responsibility (Lepoutre and Heene, 2006). Hence, Murillo and Lozano (2009) recently concluded that knowledge about how to promote CSR in SMEs is humble. Whereas the question of ‘that and how’ SMEs are structurally different has been widely discussed, there is no agreement how it should then be proceeded in order to develop and apply an adequate concept of CSR; in particular one that takes into account SMEs as economic actors operating in the global context.

#### *Organizational characteristics of SMEs*

A number of scholars has attempted to distinguish SMEs from MNEs in order to build a solid groundwork on which a ‘tailored’ CSR agenda for SMEs could be developed (see table 1) (Gibb, 2000; Jenkins, 2004; Moore and Spence, 2006; Morsing and Perrini, 2009; Russo and Perrini, 2009; Scherer, 2006; Spence, 2007). Some scholars have further attempted to categorize different within-group sizes of SMEs and respective influences on their CSR engagement, i.e., micro-enterprises (<10 employees), small enterprises (<50 employees) and medium-sized enterprises (<250 employees) (EC, 2003). Apparently, the more a company grows, the more likely it would establish large-firm characteristics regarding formality of processes and organizational structures, which eventually influence a company’s stance to CSR (Preuss and Perschke, 2010).

The organizational characteristics outlined in the following thus illustrate likely

‘tendencies’ of differences between large and small organizations, which represent a dynamic continuum. These characteristics however do not necessarily apply to every one and each company, but are a general characterization. Also, one company might e.g., be much formalized in specific aspects (a large firm characteristic), but could still retain a high owner-manager influence on certain decisions (a small firm characteristic).

Whereas most aspects of coordination (communication, workflows, interpersonal- and power–relationships) can be characterized as rather *informal* in SMEs and are manifested by looser control systems, less documentation and fewer procedural hurdles, MNEs typically possess very *formalized* structures, hierarchies and rules of behaviour and management policies that are embedded in a functional division of labour (Jenkins, 2004; Perrini et al., 2007; Russo and Perrini, 2009; Russo and Tencati, 2009; see also Weaver et al., 1999; Matten and Moon, 2008). Where the *structure* itself in MNEs is rather manifested by an elaborate and comprehensive organization chart and e.g., standardized CSR communication, people in SMEs are guided in what they do and how they behave by an implicit *culture* often lacking written or formally agreed upon rules (Spence, 2007; Vyakarnam et al., 1997). MNEs would typically aim for ensuring *compliance* with those rules (both laws and self-regulation), whereas for SMEs, ethical behaviour not only of the owner-manager, but also of the employees is more likely to be guided by their respective personal *integrity* and moral beliefs (Jenkins, 2006; Scherer, 2006; Soppe, 2002; Spence and Lozano, 2000). In MNEs, CSR activities are often formulated in an explicit *strategy* that seeks to anchor them in policies and management systems. In SMEs, though, it is much more likely that activities related to CSR follow the *intuition* of the person responsible for them and the values of the owner-manager play a crucial role, and in their daily practice are more important than strategic considerations of CSR (Russo and Tencati, 2009; Spence, 2007). In this sense, *personal ethics and morals* are much more important than a top-down adopted and formalized *code of conduct* which might lack identification with the individual employee (Jenkins, 2004; Murillo and Lozano,

2006; Scherer, 2006). Empirical evidence suggests that many SME owner-managers recognize the relevance of ethics in business, especially openness and trust, selected relationships with suppliers and honest dealings with employees, but do not attempt to systematically 'write it down' in a formal code or policy (Russo and Tencati, 2009, Spence and Lozano, 2000). They are often the persons who are ultimately answerable to ethical questions, and are less inclined to use formal instruments to foster or benchmark ethical behaviour within their organization (Graafland, 2003; Spence, 2007). In addition, they are not as much as managers in public MNEs exposed to shareholder influence and therefore possess a higher autonomy to implement personal values at their discretion (Spence, 1999; see also Berrone et al., 2010).

The owner-managed firm where ownership and control lie with the same person is the most widespread organizational form of SMEs, and agency conflicts as common in MNEs are less prevalent (Cambra-Fierro et al., 2008; Preuss and Perschke, 2010; Richbell et al., 2006; Russo and Perrini, 2009). This lends legitimacy to the personal decisions made on how to use company resources, such as on CSR related activities, and allows a degree of autonomy in how CSR is approached (Jenkins, 2006). Thus, SMEs tend to work in a less structured context than MNEs which consists of trust, informality and personal relationships (Graafland et al., 2003; Russo and Tencati, 2009). Whereas SMEs are increasingly revealing their familiarity with and consciousness of social responsibility, many of them still show an unwillingness to formalize their CSR strategies into specific and explicit management systems (Russo and Tencati, 2009).

In addition to these internal characteristics, which have been outlined above, individual SMEs are much less visible than MNEs. They are significantly less present in the media, have a much lower public attention and normally are not as eager as most MNEs to change this, for instance through far reaching PR campaigns (Tilley, 2000).

<b>SME</b>		<b>MNE</b>
Informal	<b>vs.</b>	Formal
Culture		Structure
Integrity		Compliance
Intuition		Strategy
Personal Ethics and Moral		Codes of Conduct
<i>Low Visibility</i>		<i>High Visibility</i>

Table 1: Organizational differences between SMEs and MNEs.

SMEs are not likely to see CSR in terms of risk management to brand image or reputation; they are not as much driven by instrumental considerations and the business case for CSR, attempting to align ethics with profit (Jenkins, 2004; 2006). In a survey conducted by UNIDO in 2004, only 28% of respondents considered CSR activities as instrumental to their overall business strategy (UNIDO, 2004). In their CSR engagement, MNEs are more likely to follow a rather ‘opportunistic’ approach of “doing some good and talking a lot about it”, whereas SMEs are more likely to choose an ‘altruistic’ approach of “doing a lot of good without much talking about it” (Financial Times, 2009). A number of authors therefore question if the fragmented and less structured and visible engagement of SMEs necessarily implies less social responsibility amongst them. When compared to MNEs, it is just not explicitly described in a policy or code, nor likely to be reported or benchmarked according to standardized frameworks such as the Global Reporting Initiative (GRI) (Fassin, 2008; Jenkins, 2004; Scherer, 2006).

#### *Common CSR practices among SMEs*

Even though the less formal and standardized activities of SMEs in responsible business practice might be more difficult to capture and compare as opposed to those of MNEs, several studies exist that show how SMEs are engaged in CSR (Ciliberti et al., 2008; Danish Federation of SMEs, 2009; European Commission, 2007; European Commission, 2003; Gadenne et al., 2009; Moore et al., 2009; Perrini et al. 2007; Roberts et al., 2006; UNIDO, 2004). Activities are however not always labelled using the term CSR, rather, they are informally defined and broken down to their components. When for instance caring about

fair treatment of employees, it is often referred to the work-life balance; rather than launching a large-scale corporate volunteering campaign, SME employees would e.g., simply be encouraged by the owner-manager to become active in local charity projects (Jenkins, 2006; 2009; Russo and Tencati, 2009). However, it is argued that informal quality management based upon personal involvement of business owners and employees is in any way inferior to more formal systems (Chittenden et al., 1998).

A study on German SMEs revealed that on average, SMEs with less than 100 employees spent 0.12% of their annual turnover on charitable donations and other philanthropic causes (Maas and Clemens, 2002), whereas large companies provided 0.05% of turnover to such purposes. As a matter of fact, philanthropic engagement of companies must not be mistaken for accepting a role in global governance; however, these figures indicate that relative to their potential, SMEs seem to be willing to even invest comparatively more than MNEs on their societal relations, weakening the often raised argument of lacking financial resources to engage in societal activities.

The rationale and motivational pressures why SMEs start engaging in responsible business practices are significantly different from those commonly attributed to MNEs. Spence and Rutherford (2003) note that the reasons for being in business and running a firm are far more complex, and socially motivated, than only financial reasons. A notion of a profit-maximizing, purely rational economic entrepreneur as the standard image of the small business owner-manager is likely to be false (Spence and Rutherford, 2003). Furthermore, small business owner-managers generally perceive themselves to be more ethical than their MNE peers (Lepoutre and Heene, 2006; Ludevid Anglada, 2000; Tilley, 2000). Evidence suggests that the majority of SMEs which are engaging in any form of responsibility do so because they are driven by the owner-managers' intrinsic motivation, personal values and ethics (Cambra-Fierro et al., 2008; European Commission, 2003; European Commission, 2007; Jenkins, 2009; Murillo and Lozano, 2006).

Jenkins (2006) argues that most SMEs use moral arguments to explain commitment to CSR, even though they may not be blind to potential business benefits. In this sense, the impetus for engaging in responsible business practice comes out of conviction, and instrumental considerations to achieve a competitive advantage, e.g., due to better environmental performance, follow, instead of being a precondition as is the case in most MNEs. Accordingly, results of surveys conducted by the European Commission (2007) and TNS Gallup (2005) show that the majority of SMEs in the EU stated that, in the first place, they were motivated by ethical concerns.

### **SMEs in Global Governance**

Georg Kell, Executive Director of the UNGC, has stated that “the degree of social responsibility of a firm is rather determined by its integration in the global economy than merely by firm size” (Unternehmerzeitung, 2007). Evidence suggests that indeed quite a few of those SMEs that are operating on international markets show an awareness of their global embeddedness along the supply chain and demonstrate a behaviour which points towards a more or less extensive understanding of political responsibility (Ciliberti et al., 2008; Danish Federation of SMEs, 2009; Jorgensen and Knudsen, 2006). These SMEs are applying already established standards for specific issues and parts of their operations, but are also seeking to spread the application of such standards to their entire operations and supply chains. For example, they integrate ISO14001 or SA8000 as voluntary environmental and social management schemes (Danish Federation of SMEs, 2009; European Commission, 2003; European Commission, 2007).

As of October 2010, 3.351 SMEs are participating in the UNGC, more than half of the total 6.216 business participants, and have agreed to annually publish a ‘Communication on Progress’ (COP), which describes the progress they have made regarding their commitment on the implementation of the 10 UNGC principles (UNGC, 2010;



[www.unglobalcompact.org/participants](http://www.unglobalcompact.org/participants)). Whereas most SMEs do not report as comprehensively (and costly) as most MNEs do, e.g., according to GRI standards or including third-party audit, many COPs of SMEs show a proactive approach to CSR, which goes beyond donations to the local community or recycling waste. A small number of SMEs have even been distinguished by the UNGC Office for publishing a 'notable' (very comprehensive) reporting ([www.unglobalcompact.org/COP](http://www.unglobalcompact.org/COP)) according to the initiative's COP policy; such reports demonstrate how on the one hand the 10 principles can be integrated into the entire business and value creation, and on the other hand how they engage and enter dialogue with their stakeholders.

Yet, until 2010, 1.166 SMEs have been delisted from the UNGC participant list due to failure of meeting the initiative's reporting requirements, i.e., annually submitting a COP to the UNGC website ([www.unglobalcompact.org](http://www.unglobalcompact.org)). As this figure represents more than 70% of all delisted participants (MNEs and SMEs), SMEs seem to have considerably more difficulties in meeting the initiative's requirements (COP Workshop, 2008).

Nevertheless, between 2007 and 2009, 91 COPs of SMEs from OECD countries have been uploaded to the UNGC website and are publicly available (MNE figures of a sample size of 353 COPs are provided for comparison, 528 COPs from non-OECD countries are not included in this analysis). Their analysis shows that these SMEs tend to emphasize relatively strongly the general business relevance of the 10 principles and reflect them in their overall management practices and to a lesser degree in their policy and strategy. The 'business case', i.e., establishing a clear connection between financial performance and the integration of the 10 principles into ones core business, is hardly reported among SMEs.

External aspects beyond the boundary of the firm are more weakly covered in this sample. The analysed SMEs show a smaller awareness of their sphere of influence regarding the 10 principles, and they do not report a strong communicative dimension of the UNGC, i.e., stakeholder interaction and dialogue. Their overall reporting is much less formalized than

MNEs' and less likely follows specific procedures, i.e., only very few SMEs in the sample use the reporting framework and the indicators of the Global Reporting Initiative (GRI).

	Business relevance of Principles	Policy & Strategy	Core business	Business Case	Sphere of Influence	Dissemination & Stakeholder engagement	Report according to GRI
SME	80 %	52%	38%	2%	18%	11%	3%
MNE	61 %	57%	76%	30%	65%	40%	46%

Table 2: COP Analysis of SMEs and MNEs. Source: [www.unglobalcompact.org](http://www.unglobalcompact.org); own research

The following table provides anecdotal evidence from 8 Danish SMEs, which are participants of the UNGC and have been selected according to their comparably high embeddedness in global supply chains and a respective reporting thereof. In Denmark in particular, both the government and the private sector have been comparably active in advancing engagement of political CSR on a global level (Danish Federation of SMEs, 2009; Jorgensen and Knudsen, 2006). Those SMEs either have own production sites or source from factories in developing countries and emerging markets – zones of potential governance gaps and weak regulation. The table shows how these SMEs have approached one or more of the issues as outlined in the 10 principles of the UNGC. Their engagement is divided into activities of rule-implementation, i.e., applying standards and procedures into operational processes, and rule-making, i.e., participating in the creation of these standards and procedures. Also, the general understanding and the role of CSR for the respective company is illustrated.

Name of company	Rule-implementation	Human Rights	Labour Standards	Environment	Anti-Corruption
	Rule-making				
<i>Rice Ltd.</i> (47 employees)	Rule-implementation	- Health & safety standards at work for suppliers in India and Thailand SA8000 certification for suppliers	- Good working conditions for suppliers in Madagascar and Thailand - SA8000 certification for suppliers	- Environmental responsibility among all suppliers ISO14001	-
	Rule-making	-	Direct dialogue with suppliers	-	-
	Role of CSR	Moral and ethics coupled with business case			
<i>Jual Ltd.</i> (110 employees)	Rule-implementation	-	- Promote labour standards to Chinese suppliers	- Promote environmental protection to Chinese suppliers	-
	Rule-making	-	- Engage in dialogue and public-private partnerships	- Show success-stories to local suppliers	-
	Role of CSR	CSR needs to be integrated into the daily routines and management of suppliers			

<i>Butler's Choice Ltd.</i> (30 employees)	Rule-implement-ation	Suppliers in Vietnam SA8000-certification	Suppliers in Vietnam SA8000-certification	Raise environmental standards in Vietnam ISO14001-certification	Anti-corruption policy
	Rule-making	-	Dialogue as source of inspiration Communicate and promote awareness to suppliers	Cooperate with local government Communicate and promote awareness to suppliers	-
	Role of CSR	Environment is a top-priority. For moral reasons as well as long term business interest. Act out of conviction. CSR should not be driven by formal requirements			
<i>Pilgrim Ltd.</i> (70 employees)	Rule-implement-ation	Health & Safety training for suppliers Code of Conduct applies to suppliers	Improve working conditions in Chinese and African suppliers Establish Fair Trade certified production in Africa Own auditing scheme in China Code of Conduct applies to suppliers	Improve environmental standards in Chinese and African suppliers Code of Conduct applies to suppliers	-
	Rule-making	Influence suppliers to understand importance of responsibility	Constructive communication and dialogue with partners Network involvement to learn from others	Constructive communication with partners Established foundation in Tanzania	-
	Role of CSR	Goes beyond charity, helps develop business to more competitiveness. Number of initiatives without clear strategy or fixed destination.			
<i>Katvig Plc.</i> (16 employees)	Rule-implement-ation	Developed own ethical guidelines for suppliers	Improve labour standards in Chinese suppliers	Environmental concerns into supply control system Use network structures and existing fair trade labels, organic cotton	-
	Rule-making	-	Dialogue with partners on sensitive issues (e.g., overtime in China)	Dialogue with partners to share responsibility	-
	Role of CSR	Sustainability is essential for long-term survival. Integral part of business philosophy; driven by idealism and conviction; puts company in stronger competitive position			
<i>Ingeman Foods Ltd.</i> (17 employees)	Rule-implement-ation	Promote human rights in Nicaragua Decent standards of health & safety at work	Scheme for employing more women and avoid discrimination	Promote environmental protection in Nicaragua	-
	Rule-making	Established network with local farmers, in particular involvement of women Training in hygiene and certification to external producers as contribution to local development	-	Established organic production principles Build long-term relationships with suppliers and wider local communities	-
	Role of CSR	Live up conviction to corporate responsibility but underline it can be profitable. Strategic CSR as integral part of business model			
<i>Orana Ltd.</i> (180 employees)	Rule-implement-ation	Promote human rights in India and Vietnam	Promote labour standards in India and Vietnam	-	-
	Rule-making	Joined long-term partnership with suppliers and stakeholders	Joined long-term partnership with suppliers and stakeholders	-	-
	Role of CSR	Emphasize better competitive positioning if CSR is applied properly			
<i>Emunio Plc.</i> (25 employees)	Rule-implement-ation	Health & Safety work initiative in Tanzania and Malaysia	-	Environmental protection at suppliers in Tanzania and Malaysia	Zero tolerance policy on corruption
	Rule-making	Involve staff to identify problems, established own policies Produce locally to contribute to development	-	-	-
	Role of CSR	Strategic approach to CSR gives competitive edge			

Table 3: Practices of exemplary UNGC SME participants. Sources: Danish Federation of SMEs, 2009; [www.unglobalcompact.org](http://www.unglobalcompact.org), company websites.

All of the examples above show a principal awareness of the issue areas along the UNGC principles. In addition, these SMEs have integrated managerial procedures into their

operations to varying degrees, mostly aspects of labour standards, human rights and environment. When looking at the scope of rule-implementation of these SMEs, many report to rely on existing standards and certification schemes, such as SA8000 or ISO14001. Others however apply their own standards, which are derived from the 10 principles and operationalized for their specific suppliers. In addition to the implementation of either standardized or individually derived rules, a few of these SMEs also show an engagement in rule-making; nevertheless to a lesser extent than rule-implementation, which appears to be easier for SMEs (Jorgensen and Knudsen, 2006). They collectively engage with other stakeholders, such as own employees, factory workers and farmers, local NGOs or even governments to approach issues such as child labour. These examples shows that there are on the one hand SMEs which rely on formalized management systems, on the other hand there are SMEs which specifically emphasize the usefulness of informal communication and dialogue with involved stakeholders, wherein individualized processes are established.

Other SMEs may not necessarily participate in the UNGC, but more or less follow the same issue areas as outlined in the 10 principles. For instance, a number of SMEs in the textile industry participates in the 'Fair Wear Foundation' ([www.fairwear.org](http://www.fairwear.org)) to develop and implement higher labour standards, or they have joined the 'Forest Stewardship Council' (FSC; [www.fsc.org](http://www.fsc.org)), a global MSI to promote sustainable forestry. For instance Monnalisa, a children's clothing manufacturer from Italy, believes that involving suppliers and sub-suppliers to adhere to the contents of SA8000 is becoming an essential requirement. Therefore, the company engages contractors through information and training. It has visited suppliers in order to make sure they have understood the company's commitment and its implications for them. The company attempts to promote and disseminate the SA8000 among peers and contractors (European Commission, 2003). Ecover, a producer of ecological washing and cleaning products from Belgium, is encouraging its suppliers and subcontractors to go beyond legislation by advocating the adoption of environmental standards, such as

ISO14001, in countries where local laws are not yet at a high level (European Commission, 2003). Italian coffee-roaster Illy seeks to create shared value for all stakeholders along its supply-chain. The company directly sources from small farmers in the coffee-producing countries and pays a premium of about 30% above the world-market price, it engages in social and educational projects in local communities and is ISO14001 certified ([www.illy.com](http://www.illy.com); Handelsblatt, 2010). Memo AG, a German medium-sized wholesaler of office supplies, demonstrates an integrated approach to social responsibility: It not only cares for its employees in Germany and has a waste recycling plan, but applies an ISO14001 certified management system for its own operations and expects suppliers to confirm with SA8000. Raw materials are FSC certified or have a Fair Trade label, CO2 emissions are compensated and open dialogue with stakeholders regularly takes place (Memo AG Sustainability Report, 2009/10).

Such evidence supports the argument that numerous SMEs do care for working conditions in distant factories of their suppliers or use environmental standards that go beyond local legislation, e.g., they apply the same values as in their home market, rely on internationally agreed standards such as ISO14001, SA8000, common fair trade labels, or comply with the principles of the UNGC and expect their suppliers to do so in the same way. Employees are engaged in business decision making processes and advisory councils set up to assume the role of the missing local trade union (Danish Federation of SMEs, 2009; European Commission, 2003; European Commission, 2007; von Weltzien Hoivik and Melè, 2009). An analysis of a sample of several thousand Italian firms reveals that even though large firms were more likely to incorporate formal environmental and human resources management, as well as audit and reporting, SMEs on the other hand demonstrated a stronger willingness in recognizing the importance of having responsible behaviours along their (international) supply chains (Perrini et al., 2007). Even though such cases must be treated as good practice examples and not the norm, they indicate that a role in global governance can no longer be

considered beyond the scope of SMEs (von Weltzien Hoivik and Melè, 2009). This evidence illustrated above will be incorporated in the development of ideal-levels of political CSR in the subsequent conceptual framework.

### **Constructing a Conceptual Framework – The Stage Axis**

The conceptual framework, which will be developed in the following, comprises of a two-dimensional matrix: a vertical ‘axis’ which illustrates different *stages* of political CSR, i.e., the more or less comprehensive extent to which an SME is engaged in global governance; and a horizontal ‘axis’ which illustrates the different *dimensions* where global governance is exercised (see appendix 1). I will begin by developing the stage-axis:

The analysis of SME’s CSR practices in relation to their global embeddedness suggests that their engagement in political responsibility can be exercised in different stages, which is consistent with Maon et al.’s theoretical discussion of organizational phases in the development of CSR (2010). Such conceptualizations rely on the assumption of a gradual process along which internal capabilities get applied to societal issues and drive the adoption of CSR practices. This usually occurs through organizational change processes, either incremental or transformational, that depend on the organization’s moral, cultural, strategic and organizational features (see Dunphy et al., 2003). Different stage models of CSR development refer to different terminologies or build on varying theoretical assumptions and might have discrepancies related to number, definition and content of the successive organizational stages which they emphasize. However, as Maon et al. (2010) argue, they demonstrate reconcilable logics that lead to parallel implications for organizations. As such, these models illustrate a development of progressive integration of societal concerns into organization’s decision-making processes.

For the conceptual framework the different stages of engagement are derived from a model of organizational learning developed by Zadek (2004; see also Maon et al. 2010). They

are structured into ideal-type levels of political CSR along several dimensions. Initially, these stages have been derived from the example of sportswear manufacturer Nike and were developed to illustrate the increasing embeddedness of (political) CSR within this exemplary MNE. In order to make sense for SMEs, they are redefined and adjusted, but the idea behind the classification remains the same (a more or less sophisticated approach to CSR applies to MNEs as much as to SMEs), only the operational approach and motivating factors are different and thus the determinants that constitute for the definition of a specific stage.

The subsequent stages of the integration of CSR activities into organizational processes are illustrated, namely the stages of *denial*, *compliance*, *managerial*, *strategic* and *civil* (table 4). While later stages illustrate a more advanced approach than earlier ones, they are subsequent, i.e., later stages include the elements of earlier ones. However, a company may show activities which fit for instance into the last stage for one dimension (engaging in MSIs to on the one hand advance self-regulation or on the other to enter dialogue with stakeholders about its own activities), but may not have implemented e.g., all UNGC principles in a strategic way, i.e., the stage might be distinct in the different issue areas. Stages are thus not to be understood as stationary, but a dynamic and continuous process without clear stopovers or breaks and possibly different development in different dimensions (Maon et al., 2010). Furthermore, SMEs might not necessarily proceed through each stage or start with the lowest and constantly aim to ‘reach’ the highest. As Dunphy et al. (2003) have argued, organizations may skip stages or even retreat by abandoning some practices, depending on their internal and external context and motivations or constraints.

Notably, this framework seeks to structure the global (political) dimension of CSR, rather than corporate responsibility in general. Therefore, it does not capture activities of responsible business practice, which are unrelated to the global context and the respective concept of political CSR. For example, I suggest that local community involvement or philanthropy of an SME, environmental protection at the direct company level (e.g., by

recycling office supplies, driving low-carbon cars, etc.) or employee benefits are, though important, not integrated into the framework and the respective stages.

On the left end of the spectrum, the *defensive stage* describes companies that are not just disengaged from a specific aspect of CSR but which are refusing even to commit to any political responsibility in the respective arena of their operations. SMEs are likely to justify this by the argument that their small size and thus limited resources prohibit any form of engagement and that it should be left to MNEs, or they are simply unaware of the aforementioned governance gaps. There is neither rule-implementation nor rule-making concerning the issues addressed by the UNGC.

The second *compliance stage* describes a legalistic view of CSR. Companies adopt a laws-based compliance approach ‘as a cost of doing business’ (Zadek, 2004, p. 127). In the language of the compliance approach, the implementation of CSR in this stage will thus likely be dominated by a liability-logic of respecting available state-imposed laws. Whereas MNEs see this logic as an approach to mitigate reputational risks, SMEs would be more concerned about possible fines, e.g., imposed after irresponsible waste treatment or the like. The perception is thus rather to avoid damage than to create value with responsible business practice (Baumann and Scherer, 2010; Zadek, 2004). For SMEs, compliance can signify an implicit culture of “we behave how we are told to do”, and “we respect those laws that are imposed on us”. There is no rule-making and rather law-implementation (legal compliance) than voluntary rule-implementation. A compliance approach might be appropriate for SMEs (and other businesses alike) if they operate in zones where national regulation is in place and enforced (e.g., in their European home country). However, in the global arena, this is not always the case; therefore, political CSR is considered to ‘start’ in the following *managerial stage*.

In this stage, SMEs begin to consider specific issues of social connection in their daily management. They may e.g., start buying raw materials, which are certified by common fair



trade labels or sustainability standards, such as SA8000, ISO14001, or the FSC. This way, SMEs aim to make sure that labour standards and environmental responsibility are respected by their suppliers. In other words, some elements of rule implementation are applied in specific parts of the value creation. In the managerial stage, SMEs are often influenced by policies of upstream buyers, e.g., MNEs which have a respective own policy that requires their suppliers to do so accordingly. Though, SMEs might also be upstream buyers themselves and adopt such standards to their own suppliers (Danish Federation of SMEs, 2009).

In the *strategic stage*, a company integrates political CSR in its core business strategies, i.e., rather than having e.g., only an anti-child labour policy, the company also has integrated all other UNGC principles into their business processes and supply chain in a strategic way. Thereby, companies for instance aim to create a competitive advantage, e.g., by positioning themselves as a sustainability leader in their market or charging a price premium on products which are entirely fair trade or organic. For example the Swiss SME Remei AG, a wholesaler of cotton, has based its entire business on fair-trade and organic products and ensures a maximum transparency on the production processes ([www.remei.ch](http://www.remei.ch)). SMEs thus have developed a business model, which builds on a sustainable product, or they have e.g., integrated only purchasing certified materials into their entire business. Strategic then refers to integrated, rather than selective rule-implementation in the entire business, but not yet rule-making, i.e., participating in dialogue with stakeholders proactively, and encouraging others to do so as well.

The definition of the final stage - *civil* - corresponds with an ideal understanding of political CSR and includes both rule-making and rule-implementation, whereas earlier stages only refer to rule-implementation. The *civil* stage is characteristic for companies who promote broad industry participation for implementing political CSR and diffuse its management expertise. In this stage, the communicative dimension of political responsibility (Palazzo and

Scherer, 2006) is fully integrated into the business model. Companies are not only caring for specific issues, but also promoting them to others and legitimizing one's actions by entering into stakeholder dialogue, MSIs and transparently disclosing own activities. Collaborations with civil society would transform into long-term partnerships that address real societal concerns. For example, a medium-sized retailer decides to only use FSC-certified paper, and also to actively participate in the FSC and and respective multistakeholder-meetings. Swiss SME Switcher, a producer of apparel, actively applies the standards of the Fair Wear Foundation and participates in dialogue with other stakeholders in this MSI ([www.switcher.ch/](http://www.switcher.ch/) [www.fairwear.org](http://www.fairwear.org)).

*Civil* thus refers to participation in rule-making (by collective action, e.g., in MSIs), that leads to rule implementation (which can already be part of the managerial stage). Whereas in MNEs, there might be formal employee and other stakeholder consultation processes, SMEs would rather have an open feedback culture regarding employees and e.g., suppliers/customers, notwithstanding a number of SMEs already formally participates in MSIs. For SMEs, a key feature of the civil stage is to discuss and decide their activities with other involved parties, such as employees, suppliers and communities. They not only take care of issues along their own supply chain, but try to participate in solving larger societal problems by engaging in joint rule-making.

<b>Stage</b>	<b>Characterization</b>	<b>Paradigm</b>
<i>Defensive</i>	Denial/Non-awareness of responsibility issues. Perception that impact is too small, 'never thought about it'	No political responsibility
<i>Compliance</i>	Act according to local laws. Often perception this is the best an SME can do.	No political responsibility
<i>Managerial</i>	Accept political responsibility within specific areas of business (parts of operations), e.g., application of existing global standards/labels	Beginning political responsibility, selective rule-implementation
<i>Strategic</i>	Competitive advantage with 'responsible' products, e.g., organic, fair-trade; entire business focused around sustainability in the supply chain.	Political responsibility, integrated rule-implementation
<i>Civil</i>	Company believes it must be part of the solution to societal problems + encourage others to do so (collective action for joint rule efforts) Strong communicative dimension	Political responsibility, rule-implementation and rule-making

Table 4: Categories of CSR practice among SMEs

## **Constructing a Conceptual Framework – The Dimensions Axis**

The dimensions axis captures the perspectives where and how political CSR is ideally understood and embedded in organizational practices. I begin by first developing the theoretical argument why SMEs are connected to global governance in general and how and where they could systematically engage in political CSR.

In line with Young (2004; 2006), I refer to philosophical approaches to social justice (see e.g., Rawls, 1971), which appear particularly useful to build a theoretical argument for the SME context, as such approaches do not differentiate after organizational characteristics such as size or resources, but according to exposure to a certain set of issues. The basic question is why and how actors should think about their responsibility in relation to such situations of governance gaps, where a direct connection between the problem (e.g., low labour standards for factory workers in developing countries) and a corporation operating in Western Europe is often difficult to establish. That is, to situations which cause ‘chronic’ injustice by means of the systems and structures they are embedded in, e.g., continuous exploitation and mistreatment of workers rights, systematic disregard of environmental standards, or corrupt authorities; structures which are often facilitated by non-existing state-regulation.

The argument for joint efforts of private and public actors to approach such problems builds on the concept of *social connection* (Young, 2004; 2006; 2008). Actors (corporations, consumers, etc.) are to “acknowledge a responsibility with respect to the working conditions of distant workers in other countries, and to take actions to meet such responsibilities” (Young, 2004, p. 365). This argument of responsibility for harms and injustices to distant strangers implied a shift from understanding responsibility as liability to understanding it as a ‘political’ responsibility. In a liability conception, it was principally plausible to hold those actors - legally and morally - responsible who were directly involved in causing injustice: Most of all the factory owners of a sweatshop, but also governments of weak states unable or

unwilling to enforce human rights or labour standards in their legislative context. Within this logic, corporations likely defended themselves by arguing it was not their own factories where such injustice had been caused (Young, 2004).

As the existence of sweat shops and environmental disasters attests, merely relying on those directly liable has not been successful in changing the very situation (Young, 2004). Hence, a ‘political responsibility’ refers to activities “in which people organize collectively to regulate or transform some aspects of their shared social conditions, along with the communicative activities in which they try to persuade one another to join such collective actions or decide what direction they wish to take” (Young, 2004, p. 377). Not the direct connection, but the structural connection of an agent creates responsibility; that is, “the scope of an agent’s moral obligation extends to all those whom the agent assumes in conducting his or her activity” (Young, 2004, p. 371).

Thus, a company’s actions partly depend on the actions of others. A corporation, for instance from Europe, is connected to workers rights exploitation if it procures raw materials or pre-products which are made under inhumane conditions and therefore would benefit from low prices. If a corporation then competes with low-priced finished products, it implicitly depends on those exploited workers to fulfil their roles, e.g., to work below minimum wages. The company cannot deny this objective connection to processes of structural injustice and, if not a legal, at least a moral obligation of responsibility exists. Therefore, those who participate in the production of these structures need to recognize that their actions contribute along with those of others to this injustice, and take responsibility for altering these processes to avoid or reduce injustice. Solving problems of responsibility in globally expanded supply chains thus demands collective action embedded in processes of democratic deliberation in order to change existing processes and institutions that produce the observed cases of injustice (Scherer and Palazzo, 2011, p. 23; Young, 2008; see also Levy, 2008).

In the social connection logic, firm size in principle is not crucial in the social connection framework to establish a connection to structural injustice. SMEs from Europe or the USA, which manufacture metals that are sourced from a mine in a developing country, might be connected to human rights violations and labour issues as well as environmental exploitation. A small shop, which prints T-Shirts, might not even be aware of the circumstances under which the shirts have been made.

The social connection to a status of systemic injustice and the resulting political responsibility is thus different respective to the context a company is working in. Most notably, if it is part of the key business operations (a regular activity which contributes to value creation within a company's business model) of even a small shop to buy low-priced T-Shirts from an unknown source in Asia, then it might in the same way be socially connected and benefit from the exploitation of workers as a multinational sports equipment wholesaler, which sources from the same factory.

From a moral point of view, or from the perspective of a forced and underpaid worker, there is no difference by whom harm has been caused or who else is connected to this harmdoing, be it a MNE or a SME. The issues and resulting ethical problems that appear are the same; on the other hand SMEs have fewer resources to address such problems. However, it is likely that SMEs are to a lesser extent connected than MNEs, which on average having a larger share of cross-border activities. Therefore it is necessary that the actions required for resolving such structural injustice and the degree of political responsibility are defined in a different way.

In other words, the question whether MNEs and SMEs should both equally engage in global governance, caused by their social connection, can be answered as 'Yes and no!' Yes, because the same basic principles and issues apply whether you are 'Bob the builder' or 'Walmart': doing no harm along the key business operations and supply chain as well as

respecting human rights and the environment. No, because there are differences since SMEs are influenced by different triggers and constraints than MNEs (Grayson, 2004, p. 1).

A central requirement for the conceptualization of the social connection logic is to counter the fear that political responsibility makes everyone responsible for everything. Different agents plausibly have different kinds of responsibilities in relation to particular issues of injustice, and some arguably have a greater degree of responsibility than others, which correlates with an agents' position within the structural processes (Young, 2006, p. 126). Also, in particular when considering SMEs and MNEs, actors have different skills and capacities, they can draw on different kinds and amounts of resources, and they might face different levels of constraints (Young, 2006). To define the limits of political responsibility, actors must understand it as a 'task' responsibility which arises along a company's core business operations and supply chain (Young, 2004, p. 384). Derived from the argumentation of the social connection logic, Young proposes to systematize political responsibility of specific actors along different dimensions of reasoning that guide behaviour (2004; 2006). Tasks are divided according to the dimensions of *connection*, *power* and *skills & capacities*. These three dimensions constitute the conceptual framework, for which several sub-dimensions as observable indicators are subsequently developed (see Table 5).

1) The *Connection* dimension captures the general awareness of global governance related issues. The 10 principles of the UNGC (see annex) provide a comprehensive 'moral compass' and thus reference framework for those issues where inclusive state regulation is often missing. They highlight the issue areas where the engagement of private actors in political CSR is needed. Also, this dimension captures the awareness of a company regarding its social connection to issues along its supply chain and core business operations. Accordingly, the connection dimension consists of the sub-dimensions *issue awareness* and *social connection*.

A social connection between issues and supply chain activities arises for instance for a small candy-manufacturer in relation to working conditions on coffee farms. This company could enter the managerial stage when buying certain amounts of fair-trade certified coffee or chocolate (see skills & capacities dimension/daily practice). For a shirt-maker, an issue of political CSR rather arises in relation to the working conditions in a shirt-factory. This company could enter a strategic stage when it implements rules to source all its shirts or raw-materials for instance from SA8000 certified factories; or it could actively join rule-making efforts of the FWF and thus enter the civil stage (see power dimension/network involvement).

In SMEs, employees are likely to be much ‘closer’ to the actual product they are selling, i.e., there is no separation between departments dealing on the one hand with CSR issues, and on the other hand being responsible for procurement, sales, etc. (see e.g., Jenkins, 2004). For SMEs, it appears much easier to raise awareness of the social connection to a specific issue of the company’s operations and the resulting responsibility as ‘the right thing to do’. As the owner-manager of Rice Ltd., a Danish arts and crafts articles wholesaler exemplified, the 10 principles set the agenda where a social connection within business operations can appear: “The Global Compact has made us aware of the diversity of issues affecting us when we produce in developing countries” (Danish Federation of SMEs, 2009, p. 18). This company has incorporated the UNGC principles on labour standards and environment all the way from their hometown in Denmark to long term suppliers in Africa and Asia. It has even terminated relations with one supplier due to continuous violation of the forced labour principle.

2) The *Power* dimension captures the ability of actors to engage collectively and enter into joint efforts of problem solving with external actors such as peer companies and other stakeholders in MSIs or similar network structures. Power is not determined by its degree, i.e. the more the better, but how existing, limited power of SMEs is used in contributing to *collective action* and *network involvement*. SMEs need to incorporate that a) they can do more

together with partners (other SMEs and civil society) and b) political responsibility essentially is a shared responsibility among all actors who contribute through their actions and linkages to specific outcomes (Young, 2004).

Ludevid-Anglada (2000) and Spence et al. (2000) support such collective efforts by arguing that when a SMEs responsibility is perceived as part of a shared responsibility to work for (in this case environmental) betterment, than small business owner-managers will be more willing to accept their own responsibility. Russo and Perrini (2009, p. 9) emphasize that SMEs increasingly incorporate the need to extend responsible behaviours along their supply chain; it should take the form of a partnership approach among firms, their suppliers, and customers to promote respect for human rights, general working conditions, and environmental issues (Perrini et al., 2007). If one SME e.g., decides not to buy raw materials from a factory, which has employed child labour, this is an honourable starting point, but has little effect alone. If many SMEs come together and decide on collective action, possibly even together with actors of civil society that live in their community or have necessary expertise, this not only creates legitimacy, but can exert significant pressure even on larger companies to follow their approach.

When seeking to organize collectively, a critical role comes to networks and an SME's active involvement therein (Enderle, 2004; Friedman and Miles, 2002; Revell and Rutherford, 2003). Such network involvement furthers the idea of collective action and shows how actors are involved in support structures, such as MSIs like the UNGC or other informal initiatives that bring together different stakeholders. Next to bringing actors together as a legitimacy building function, such networks are particularly for SMEs useful in promoting awareness of issues (see connection-dimension) and providing guidance for daily practice (see skills & capacities dimension). Spence (2007) has noted that among many SMEs competitors from the same sector are often seen more as industry colleagues than enemies, which provides an intuitively easier precondition to partner up for joint problem solving.



Murillo and Lozano emphasized the need for intermediate organizations, such as chambers of commerce, in a case study (2009). They found that a multistakeholder approach works well, if it includes all legitimated agents. It is a way to a) ‘get the message across’ and b) legitimize actions as they are (or at least could be) deliberatively discussed within a network. Hence, networks enable a process of dialogue, rather than prescribing predefined outcomes (which is e.g., questioned by Murillo and Lozano as suitable for SMEs that are quite different in their capacities).

In practice, the last years have seen a steady increase in the creation of MSI which are addressing a wide range of topics, ranging from supply chain issues of a specific industry (such as the FWF) to the global level (such as the UNGC) etc. In MSIs, ‘actors from business, civil society and governmental or international organizations come together in order to find a common approach to an issue that affects them all and that is too complex to be addressed effectively without collaboration’ (Roloff, 2007, p. 234). As such, MSIs aim to close governance gaps by setting standards (rule-making), controlling rule-implementation and by providing transparency (Utting, 2002). Networks like the UNGC or the FWF appear to provide a useful framework and learning platforms for SMEs. They offer the structures which SMEs need to engage in collective responsibility.

A manager from Katvig Plc., a manufacturer of children’s clothing from Denmark, who sources from developing countries, sums it up as “...dialogue with other companies on these sensitive issues is important to us. We cannot meet all these challenges on our own. This is why we have joined the UNGC” (Danish Federation of SMEs, 2009, p. 34). Eurotex Apparel Ltd., another SME producing children’s clothing, decided to enter into a long-term partnership with other SMEs of the textile sector and professional bodies to jointly tackle child labour. This company figured out that dealing with some issues, e.g., environmental responsibility (introducing clean drinking water to factory workers), was a relatively easy task. Child labour, in contrast, appeared to be much more complex and the company decided

it had to partner with other involved actors to find a feasible and legitimate solution (Danish Federation of SMEs, 2009, p. 22). Pilgrim Ltd., a jewellery manufacturer, who sources its raw materials from Africa, states, “if we were to start all over again, we would get involved in relevant networks and learn from the experience of other companies” (Danish Federation of SMEs, 2009, p. 30).

3) The *Skills & Capacities* dimension captures the internal embeddedness of political CSR in the mindset of the organization’s members (*company culture*), in its specific *daily practices and processes* such as procurement, production, marketing, etc. and the *involvement of employees* in these processes as well as the way how this information is *transparently disclosed* and communicated to an external public.

Corporate engagement with society refers to the process by which an organization expresses and develops its corporate culture and social consciousness (Rupp et al., 2006). The *company culture* dimension thus reflects how the owner-manager and employees convert their issue awareness and attitude into a firm-culture of political responsibility. This culture can be informal in a way that employees would understand their political responsibility ‘just as the way we do things around here’, without referring to specific policy documents or the like. A culture of political responsibility based on open, informal communication seems intuitively easier for SMEs because it is more likely that people in SMEs (e.g., the owner-manager, but other employees as well) communicate on a daily basis and are in (implicit and informal) contact with each other and with many immediate stakeholders, such as other employees, customers, suppliers or the local community. SMEs are advantaged compared to MNEs in that dealing with CSR is unlikely to belong to a single department from where it has to climb down the hierarchy ladder or might be perceived by middle-managers as ‘the CEOs issue’. Instead, political responsibility can be a set and understanding embedded within the daily discourse of the company’s habitual business practices, and employees are likely to be more closely involved in decision making (Murillo and Lozano, 2006).

*Daily practice & processes* refers to processes and functional activities within a SME, where such responsibility is exercised, e.g., in production, marketing, procurement, sales, HR, etc. by converting commitments to standards in daily procedures. Whereas political responsibility in a managerial stage would for instance include buying fair trade materials, having an ISO14001 or SA8000 certification for parts of the raw materials, a strategic approach covers the entirety of a company's practices and, in a civil stage, would involve open sharing of best- practices with other stakeholders to enable joint learning.

Studying CSR in SMEs, Russo and Tencati (2009) state that *employee involvement* in SMEs is usually higher than in MNEs. Also, personal proximity and a relatively small number of employees are factors that facilitate communication and trust, i.e., because 'everybody knows each other' (Spence and Lozano, 2000). Thus, spreading awareness and understanding of political responsibility to the mindset of individual employees in SMEs more likely happens via implicit, but direct involvement and interaction, and not via the distribution of explicit leaflets, brochures, or obligatory CSR e-learning tools as common practice in MNEs (Baumann and Scherer, 2010). Employee involvement captures to what extent employees are integrated in decision making (which can be done informally) and whether there is an open and trust-based feedback culture to create internal legitimacy. Whereas most MNEs would delegate decision making of CSR issues to special (ethics) committees, SMEs are very unlikely to have such committees. Rather, they are characterized by multi-tasking and therefore, all those employees that are dealing with a specific issue are involved into decision making, which seems intuitively more democratic (Perrini et al., 2007).

Ultimately, *transparency* of these processes, not only to external stakeholders, but as well within the company boundaries, is a key component to build trust and long-term relationships. Transparency in the civil stage would imply a balanced approach toward the disclosure of impacts, accomplishments and non-accomplishments along the whole supply chain (Basu & Palazzo, 2008). For SMEs, this can be characterized by their willingness to

expose its activities to external monitoring through independent actors, which is of particular importance to promote successful processes of rule-making (Parker, 2002).

Evidence suggests that despite limited resources of many SMEs, at least reactive transparency, i.e., openness to stakeholder requests, must not be beyond the scope of an SME. The small Swiss organic cotton trader Remei e.g., discloses information about its supply that allows tracing a product ‘from the plant to the store’ ([www.remei.ch](http://www.remei.ch)). Moulin Routy, a small French cooperative that manufactures toys in China and Romania, has recruited a trusted intermediary on the spot in order to guarantee the application of ethical principles with regard to working conditions and pay among their foreign sub-contractors. While this procedure may not be as rigorous as an external third party audit, it does submit the supply chain management to the internal democratic control of the members of the cooperative (European Commission, 2003, p. 23).

<b>Stages/ Dimensions</b>	<b>Denial</b> no political responsibility	<b>Compliance</b> no political responsibility	<b>Managerial</b> selective rule- implementation	<b>Strategic</b> integrated rule- implementation	<b>Civil</b> rule-making and rule- implementation
<b>Connection</b>					
<i>Issue-Awareness</i>	- not aware of issues related to global governance	- know national laws and regulation and respect them	- aware of global governance challenges and own impact on <u>specific</u> issues/processes within value chain	- aware of global governance challenges and own impact on <u>all</u> issues/processes	- awareness of internal and external, societal problems at large - proactive raising of awareness of other actors, e.g., suppliers, sector peers
<i>Social- Connection</i>	- don't feel connected - liability logic	- accept direct connection, if established by law - liability logic	- focus on social connection that has impact on specific processes - selective approach along supply chain	- aware that social connection exists along entire supply chain - integrated approach along entire supply chain	- aware of indirect connection along entire supply chain - accept impact on direct and indirect stakeholders - promote awareness of impact among peers
<b>Power</b>					
<i>Collective Action</i>	- no collective action	- reactive engagement - not self-motivated	- join, if it makes business sense, on specific processes and issues	- join for strategic reasons, covers entire business; strategic/long-term partnerships - focus on rule- implementation	- rule-making and rule- implementation - promote awareness and joint efforts with suppliers, buyers and peers - joint/collective action AND decision making with involved actors
<i>Network Involvement</i>	- no network involvement - no priority	- occasional involvement/ad-hoc - passive - low priority	- participate in net- work, but as follower - medium priority - engage in selected projects	- emphasize business/strategic benefits from participation - high priority	- active, leadership role, continuous involvement - want to be best practice example - encourage others to join

<b>Skills &amp; Capacities</b>					
<i>Company Culture</i>	- not part of culture	- compliance culture (know and respect the law) - philanthropy	- consider specific processes, e.g., via certificates - CSR seen as investment, but ad-hoc decision	- competitive advantage with sustainable products - integrated institutionalization	- contribute to a better society at large - achieve leadership role - culture of open communication and joint decision, open feedback
<i>Daily Practice &amp; Processes</i>	- not part of daily business practice - try to escape existing rules	- minimum - implement rules where obliged to by law	- only for specific processes - focus on (voluntary) rule-implementation	- use of (formal) management systems, labels, certification - embedded in entire business strategy and processes	- promote in all parts of value creation - promotion in supplier practices - willing to transfer own best-practice to others
<i>Employee Involvement</i>	- not in employee mindset	- passive, know laws	- selective, e.g., procurement officer	- all employees (management) are involved and responsible for rule-implementation	- political responsibility part of employee mindset - active involvement of employees in rule- and decision making - management <u>and</u> employee driven
<i>Transparency</i>	- no transparency, no information is disclosed	- transparency is kept at minimum level, if disclosed only on request or if legally required	- good practice is disclosed - use of label/certification for specific products	- all operations/entire value chain is disclosed - all products have labels or are certified	- transparency is actively promoted - stakeholder feedback is integrated in decisions

Table 5: Conceptual framework for embeddedness of political CSR in SMEs

## Conclusion

In this paper, I have discussed the role of SMEs as private actors in global governance and developed a conceptual framework to systematically assess their engagement in political CSR. SMEs can, as much as MNEs, be exposed to governance gaps of weak or non-enforced social and environmental regulation when operating in the global market place. Therefore, a political responsibility for such social connection must be attributed to SMEs as well. However, as their organizational characteristics are significantly distinct from MNEs, the conceptual framework systematizes political CSR for SMEs by taking into account such differences. The framework is divided into two dimensions and consists of a *stage-axis* and a *dimensions-axis*.

The conceptual framework reflects the influence of SME owner-managers in particular regarding awareness of global governance issue and social connection, the need for collective action and engagement in networks due to low individual visibility and the predominantly informal nature of SMEs internal organization, regarding their culture and involvement of employees and a pragmatic, less standardized approach to disclosing

information. In sum, the conceptual framework allows the assessment of the embeddedness of political CSR and global governance within SMEs along theoretically derived ideal levels, starting at the managerial stage, and extending over a strategic towards a civil stage.

This paper contributes to the literature on the one hand by showing how this role can be systematically approached and evaluated and illustrates with empirical evidence that a political, as well as economic role for SMEs in global governance in principle exists. The framework is however limited in a way that on the one hand it focuses on SMEs from developed countries engaged in developing countries and that on the other hand a more or less ‘European’ perspective has been taken when e.g., analyzing the organizational characteristics of SMEs. Accordingly, it might thus not be equally transferable e.g., to Asian SMEs.

Future research is suggested to further scrutinize specific SMEs, which are exposed to potential governance gaps, in a qualitative, multiple case study approach. In particular, future empirical research should answer the question of what triggers why specific SMEs are positioned in one stage of the framework and not another, why they might advance or even move backwards. In this regard, the empirical evidence illustrated in this study would suggest that it rather the industry global embeddedness of a company’s production chain, rather than merely firm size. As such, it is aimed uncover why and how exactly SMEs engage in political CSR and shed further light on the debate about the role of private actors in global governance.

## Appendix

### *Appendix 1: 'The 10 principles of the United Nations Global Compact'*

The UN Global Compact's ten principles in the areas of human rights, labour, the environment and anti-corruption are derived from:

- The Universal Declaration of Human Rights
- The International Labour Organization's Declaration on Fundamental Principles and Rights at Work
- The Rio Declaration on Environment and Development
- The United Nations Convention Against Corruption

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, this set of core values.

#### Human Rights

*Principle 1:* Businesses should support and respect the protection of internationally proclaimed human rights; and

*Principle 2:* make sure that they are not complicit in human rights abuses.

#### Labour Standards

*Principle 3:* Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

*Principle 4:* the elimination of all forms of forced and compulsory labour;

*Principle 5:* the effective abolition of child labour; and

*Principle 6:* the elimination of discrimination in respect of employment and occupation.

#### Environment

*Principle 7:* Businesses should support a precautionary approach to environmental challenges;

*Principle 8:* undertake initiatives to promote greater environmental responsibility; and

*Principle 9:* encourage the development and diffusion of environmentally friendly technologies.

#### Anti-Corruption

*Principle 10:* Businesses should work against corruption in all its forms, including extortion and bribery.

Source: [www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html](http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html)

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